Ladysmith & District Credit Union
Consolidated Financial Statements
December 31, 2017

Contents

For the year ended December 31, 2017

Management's Responsibility

To the Members of Ladysmith & District Credit Union:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP is appointed by the members to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

March 27, 2018

John de Bruyn

Chief Executive Officer

Independent Auditors' Report

To the Members of Ladysmith & District Credit Union:

We have audited the accompanying consolidated financial statements of Ladysmith & District Credit Union and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of profit, comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ladysmith & District Credit Union and its subsidiaries as at December 31, 2017 and their financial performance the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Abbotsford, British Columbia

March 27, 2018

MNP LLP

Chartered Professional Accountants

Ladysmith & District Credit Union
Consolidated Statement of Financial Position
As at December 31, 2017

	2017	*2016*
Assets		
Cash and cash equivalents *(Note 5)*	**1,136,725**	7,698,295
Financial investments *(Note 6)*	**12,871,275**	16,797,581
Derivative financial instruments *(Note 7)*	**-**	298,445
Trade and other receivables *(Note 8)*	**5,688,122**	702,084
Income taxes recoverable *(Note 13)*	**-**	35,892
Loans to members *(Note 9)*	**141,864,856**	129,611,116
Deferred tax assets *(Note 13)*	**19,900**	19,900
Premises and equipment *(Note 10)*	**4,738,609**	3,978,015
Intangible assets *(Note 11)*	**1,174,096**	1,265,771
	167,493,583	160,407,099
Liabilities		
Member deposits *(Note 12)*	**157,168,040**	151,011,390
Other liabilities *(Note 15)*	**483,143**	562,478
Deferred tax liabilities *(Note 13)*	**307,000**	221,000
Derivative financial instruments *(Note 7)*	**308,565**	-
	158,266,748	151,794,868
Commitments *(Note 21), (Note 23)*		
Members' equity		
Retained earnings	**8,415,707**	8,245,026
Accumulated other comprehensive income	**811,128**	367,205
	9,226,835	8,612,231
	167,493,583	160,407,099

Approved on behalf of the Board

The accompanying notes are an integral part of these financial statements

Ladysmith & District Credit Union
Consolidated Statement of Profit
For the year ended December 31, 2017

	2017	*2016*
Financial income		
Interest on member loans	**5,252,643**	4,991,680
Cash resources and investments	**723,025**	934,790
	5,975,668	5,926,470
Financial expense		
Interest on member deposits	**2,370,213**	2,476,536
Interest on borrowed funds	**9,956**	10,413
	2,380,169	2,486,949
Financial margin	**3,595,499**	3,439,521
Provision for impairment on loans to members *(Note 9)*	**115,488**	181,306
	3,480,011	3,258,215
Other income *(Note 16)*	**1,442,618**	1,640,491
Operating margin	**4,922,629**	4,898,706
Operating expenses *(Note 17)*	**4,502,559**	4,290,306
Income from operations	**420,070**	608,400
Distribution to members *(Note 14)*	**60,757**	57,202
Income before income taxes	**359,313**	551,198
Provision for (recovery of) income taxes *(Note 13)*		
Current	**102,632**	122,632
Deferred	**86,000**	(19,000)
	188,632	103,632
Profit for the year	**170,681**	447,566

The accompanying notes are an integral part of these financial statements

Ladysmith & District Credit Union
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2017

	2017	2016
Profit for the year	**170,681**	447,566
Other comprehensive income (loss):		
Net losses on derivatives designated as cash flow hedges	**(531,226)**	(292,106)
Income tax recovery relating to losses on derivatives designated as cash flow hedges	**90,300**	52,600
Change in unrealized gains (losses) on available-for-sale assets	**205,052**	(205,052)
Income tax recovery (expense) relating to the change in unrealized gains (losses) on available-for-sale assets	**(36,900)**	36,900
Change in unrealized gains on revaluation of land and buildings	**716,697**	258,039
Other comprehensive income (loss) for the year, net of income tax	**443,923**	(149,619)
Total comprehensive income for the year	**614,604**	297,947

The accompanying notes are an integral part of these financial statements

Ladysmith & District Credit Union
Consolidated Statement of Changes in Members' Equity
For the year ended December 31, 2017

	Retained earnings	*Accumulated other comprehensive income*	*Total equity*
Balance December 31, 2015	**7,797,460**	**516,824**	**8,314,284**
Profit for the year	**447,566**	**-**	**447,566**
Other comprehensive loss for the year	**-**	**(149,619)**	**(149,619)**
Balance December 31, 2016	**8,245,026**	**367,205**	**8,612,231**
Profit for the year	**170,681**	**-**	**170,681**
Other comprehensive income for the year	**-**	**443,923**	**443,923**
Balance December 31, 2017	**8,415,707**	**811,128**	**9,226,835**

The accompanying notes are an integral part of these financial statements

Ladysmith & District Credit Union
Consolidated Statement of Cash Flows
For the year ended December 31, 2017

	2017	*2016*
Cash provided by (used for) the following activities		
Operating activities		
Profit for the year	**170,681**	447,566
Unrealized (gains) losses on revaluation of land and buildings through profit and loss	**(76,492)**	226,900
Depreciation of premises and equipment	**179,739**	120,597
Depreciation of intangible assets	**162,793**	169,017
Deferred income taxes	**86,000**	(19,000)
Gain on disposal of premises and equipment	**(474)**	-
Provision for impairment on loans to members	**115,488**	181,306
Hedge ineffectiveness on derivative financial instruments	**15,147**	7,115
Changes in working capital accounts		
Trade and other receivables	**(4,986,038)**	2,942
Income taxes payable/recoverable	**89,324**	58,578
Other liabilities	**(79,369)**	95,880
Accrued interest on loans to members	**(22,292)**	40,587
Accrued interest on member deposits	**(8,013)**	(149,973)
Accrued interest on interest rate swaps	**60,638**	64,981
	(4,292,868)	1,246,496
Financing activities		
Net change in member deposits	**6,164,663**	6,032,680
Investing activities		
Net change in loans to members	**(12,346,936)**	(8,357,845)
Net change in financial investments	**4,131,358**	3,325,309
Purchases of premises and equipment	**(147,647)**	(534,685)
Purchases of intangible assets	**(71,118)**	(45,057)
Proceeds from disposal of premises and equipment	**978**	-
Proceeds from sale of property held for resale	**-**	182,229
	(8,433,365)	(5,430,049)
Increase (decrease) in cash and cash equivalents	**(6,561,570)**	1,849,127
Cash and cash equivalents, beginning of year	**7,698,295**	5,849,168
Cash and cash equivalents, end of year	**1,136,725**	7,698,295

1. Reporting entity

Ladysmith & District Credit Union (the “Credit Union”) was formed pursuant to the Credit Union Incorporation Act of the British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia (“the Act”).

The Credit Union serves members in Ladysmith, British Columbia and the surrounding community and operates two Credit Union branches. The address of the Credit Union’s registered office is 330 First Avenue, Box 430, Ladysmith, British Columbia.

The consolidated financial statements of the Credit Union for the year ended December 31, 2017 comprise the Credit Union and its wholly owned subsidiaries L.C.U. Insurance Agencies Ltd., LDCU Financial Management Ltd., and True Mortgage Specialists Ltd. Together, these entities are referred to as the Credit Union.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and interpretations adopted by the International Accounting Standards Board (“IASB”).

These consolidated financial statements for the year ended December 31, 2017 were approved by the Board of Directors on March 27, 2018.

Basis of measurement

The consolidated financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2017. Adoption of these amendments had no effect on the Credit Union’s financial statements.

- IFRS 10 Consolidated financial statements
- IAS 1 Presentation of financial statements
- IAS 16 Property, plant and equipment
- IAS 38 Intangible assets

3. Summary of significant accounting policies

The following principle accounting policies have been adopted in the preparation of these consolidated financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Credit Union and its 100% owned subsidiaries (L.C.U. Insurance Agencies Ltd., LDCU Financial Management Services, and True Mortgage Specialists Ltd.).

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Credit Union the current ability to direct the relevant activities and that the Credit Union has the practical ability to exercise, is considered.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

3. Significant accounting policies *(Continued from previous page)*

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Any balances, unrealized gains and losses or income and expenses arising from intra-Company transactions, are eliminated upon consolidation. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Credit Union's interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits held at Central 1.

Financial investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

Central 1 term deposits

Deposits held for liquidity purposes with Central 1 are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost using the effective interest method which approximates fair value.

Portfolio investments

Investments are measured and recorded on a basis consistent with the appropriate financial instrument designation.

Investments in equity investments that do not have a quoted market price in an active market are measured at cost.

Loans to members

Loans are initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

Property classified as held for resale

Assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Credit Union's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Premises and equipment

Equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Premises (land and buildings) are initially recognized at cost, including any cost directly attributable to the acquisition of these assets. Subsequent to initial recognition, these assets are stated at their revalued amount at each reporting date.

Any revaluation increase is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is recognized in profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising from the revaluation is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation increase of that asset.

3. Significant accounting policies *(Continued from previous page)*

Fair value is determined based on available market evidence at the reporting date. The fair value of properties is based on valuation by a combination of independent appraisers and management estimates.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

All assets having limited useful lives are depreciated using the straight-line method over their estimated useful lives. Land has an unlimited useful life and is therefore not depreciated. Assets are depreciated from the date of acquisition.

The methods of depreciation and useful life applicable for each class of asset during the current and comparative period are as follows:

	Method	***Years***
Buildings	straight-line	15 to 30 years
Automotive	straight line	3 years
Equipment	straight-line	2 to 10 years
Leaseholds	straight-line	5 years

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

Intangible assets

Intangible assets are recorded at cost and are subsequently measured at cost less accumulated amortization and accumulated impairment losses.

The methods of depreciation and useful life applicable for each class of asset during the current and comparative period are as follows:

	Method	***Years***
Banking system	straight-line	10 years
Website	straight-line	5 years

Impairment of financial assets

For financial assets carried at amortized cost, the Credit Union first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in comprehensive income.

Financial assets, together with the associated provision for impairment are reported as a credit loss when there is no realistic prospect of future recovery and when the Credit Union is in possession of the loan. Interest income is accrued until the financial asset becomes a credit loss.

The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate. The calculation of the present value of estimated future cash flows reflects the projected cash flows including provisions for impaired financial assets, prepayment losses, and costs to securitize and service financial assets.

For the purpose of the collective evaluation of loan impairment, financial assets are grouped on the basis of the Credit Union's internal system that considers credit risk, characteristics such as asset type, industry, geographical location, collateral, delinquency status and other relevant economic factors.

3. Significant accounting policies *(Continued from previous page)*

Future cash flows on the group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical credit loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical credit loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year such as changes in unemployment rates, inflation, borrowing rates, consumer fuel prices, vehicle auction values or other factors that are indicative of incurred losses in the group and their magnitude.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment on loans, if a provision for impairment on loans had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in the period.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU’s, or otherwise they are allocated to the smallest group of CGU’s for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Member deposits

Members' savings and deposits are initially recognized at fair value, net of transaction costs directly attributable to the issuance of the instrument, and are subsequently measured at amortized cost using the effective interest rate method.

Member shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Accounts payable

Accounts payable are initially recorded at fair value and are subsequently carried at amortized cost, which approximates fair value due to the short term nature of these liabilities.

3. Significant accounting policies *(Continued from previous page)*

Employee benefits

Short-term employee benefits expected to be paid in exchange for services rendered by employees in the year are recognized as current liabilities, measured at the undiscounted amount of the benefits the Credit Union expects to pay.

The Credit Union participates in a Group Registered Savings Plan, recognizing contributions as an expense in the year during which services are rendered by employees. The Credit Union has no legal or constructive obligation to pay further amounts beyond these contributions.

Provisions

A provision is recognized, if, as a result of a past event, the Credit Union has a legal or constructive obligation that can be estimated reliably and it is probable that a future outflow of economic benefits will be required to settle the obligation. The timing or amount of the outflow may still be uncertain.

Provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and specific risks of the obligation. Where there are a number of obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. All provisions are reviewed at each reporting date and adjusted accordingly to reflect the current best estimate.

Distributions to members

Dividends on member shares classified as other liabilities are recognized in comprehensive income.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured.

Interest income is recognized in profit or loss for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

Fees related to the origination or renewal of a loan are considered an integral part of the yield earned on a loan and are recognized using the effective interest method over the estimated repayment term of the related loan.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

Commission revenue is recognized in profit or loss on an accrual basis upon the provision of services from acting in the capacity of an agent rather than as the principal in a transaction.

Income taxes

Current tax and deferred tax are recognized in profit or loss except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

3. Significant accounting policies *(Continued from previous page)*

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are recognized in profit or loss for the current period.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction and non-monetary items that are measured at fair value are translated using the exchange rates at the date when the items' fair value was determined. Translation gains and losses are included in profit or loss.

Financial instruments

Classification and measurement

All financial instruments are initially recognized at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as described below. During the year, there has been no reclassification of financial instruments.

Financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through profit or loss. The Credit Union's financial instruments classified as fair value through profit or loss include cash, cash equivalents, derivative assets, liabilities, and interest rate swaps.

Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Certain equity instruments which do not trade in an open market and whose fair value cannot be reliably measured are recorded at cost. Transactions to purchase or sell these items are recorded on the settlement date. The Credit Union's financial instruments classified as available-for-sale include shares in Central 1 and certain other investments.

Financial assets classified as loans and receivables are subsequently measured at amortized cost. The Credit Union's financial instruments classified as loans and receivables include all members' loans receivable, Central 1 liquidity deposits and accrued interest, other investments and trade and other receivables.

Financial instruments classified as other financial liabilities include member deposits, line of credit and accounts payable. Other financial liabilities are subsequently carried at amortized cost.

Derecognition of financial assets

Derecognition of a financial asset occurs when:

- The Credit Union does not have rights to receive cash flows from the asset;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
  - The Credit Union has transferred substantially all the risks and rewards of the asset, or
  - The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. Significant accounting policies *(Continued from previous page)*

Derivative financial instruments

Derivative instruments are recorded at fair value, including those derivatives that are embedded in financial or non financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recorded in profit or loss. With the exception of derivative instruments designated as effective cash flow hedges, which are recorded in other comprehensive income.

Cash flow hedge

The Credit Union mainly uses interest rate swaps to hedge exposure of the future cash flows related to a fixed or floating rate financial asset or liability. The effective portion of the changes in fair value of the hedging derivative, net of taxes, is recognized in other comprehensive income, whereas the ineffective portion is recognized in profit or loss. The amounts recognized in other comprehensive income with respect to cash flow hedges are reclassified to profit or loss in the period or periods during which the hedged item affects profit or loss.

Fair value measurements

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2017 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 9 Financial instruments

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The Credit Union is currently assessing the impact of the standard on its consolidated financial statements. The Credit Union does not expect the standard to have a material impact on its financial statements. The new impairment and classification and measurement requirements will be applied by adjusting the Credit Union's Statement of Financial Position on January 1, 2018, the date of initial application of IFRS 9, with no restatement of comparative periods.

The adoption of IFRS 9 is expected to result in certain differences in the classification of financial assets when compared to the Credit Union's classification under IAS 39. The Credit Union continues to monitor and refine certain elements of its analysis of classification and measurement differences and the impairment assessment in advance of the Credit Union's December 31, 2018 financial statements.

IFRS 15 Revenue from contracts with customers

IFRS 15, issued in May 2014, will specify how and when entities recognize, measure, and disclose revenue. The standard will supersede all current standards dealing with revenue recognition, including IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers,* and SIC 31 *Revenue – barter transactions involving advertising services*.

Amendments to IFRS 15, issued in April 2016, clarify some requirements and provide additional transition relief for when an entity first applies IFRS 15.

3. Significant accounting policies *(Continued from previous page)*

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Credit Union is not expecting an impact of this standard on its consolidated financial statements.

IFRS 16 Leases

IFRS 16, issued in January 2016, introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard will supersede IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Credit Union is currently assessing the impact of this standard on its consolidated financial statements. The Credit Union expects to apply the standard for its consolidated financial statements dated March 27, 2018.]

4. Significant accounting judgements, estimates and assumptions

The preparation of the Credit Union's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

Allowance for impaired loans

The Credit Union reviews its individually significant loans at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Credit Union makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Member loans that have been assessed individually and found not to be impaired and all individually insignificant loans are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook. The impairment loss on member loans is disclosed in more detail in Note 9.

Financial instrument not traded on active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome that the amount included in the tax liabilities.

5. Cash and cash equivalents

	2017	2016
Cash on hand	**1,136,725**	7,398,295
Liquidity reserve deposits callable or maturing in three months or less	**-**	300,000
	1,136,725	7,698,295

Total cash and cash equivalents include $1,106,417 (2016 - $1,138,611) in foreign currencies denominated in Canadian dollars.

The Credit Union cash resources exceed the minimum liquidity requirement by approximately $1,105,554 (2016 - $7,527,947).

6. Financial investments

	2017	2016
Deposits callable or maturing between three months and five years:		
Liquidity reserve deposits	**10,475,000**	11,175,000
Bid term deposits	**1,627,250**	-
Accrued interest	**103,099**	72,026
	12,205,349	11,247,026
Other financial investments:		
Investment - bond portfolio	**-**	4,871,626
Shares - Central 1 Class A	**587,526**	605,990
Shares - Central 1 Class E	**50**	53
Shares - CUPP Services Ltd.	**52,775**	52,775
Shares - STAB Central	**104**	104
Accrued dividends	**25,471**	20,007
	665,926	5,550,555
	12,871,275	16,797,581

Liquidity reserve deposit

For liquidity purposes, the Credit Union must maintain liquidity reserve deposits with Central 1 of at least 8% (2016 – 8%) of total members' deposits and non-equity shares.

7. Derivative financial instruments

The nature of the Credit Union's activities exposes it to risks of changes in interest rates. The Credit Union uses interest rate swaps with Central 1 to hedge exposure to interest rate risks.

As at December 31, 2017, the Credit Union had entered into three (2016 - four) "receive fixed" interest rate swap contracts with a total notional amount of $15,000,000 (2016 - $20,000,000) and a fair value difference of $(308,565) (2016 - $298,445).

Under the terms of the contracts, Central 1 is obligated to pay the Credit Union a fixed rate ranging from 1.280% to 2.205% (2016 – 2.055% to 2.360%). The Credit Union is obligated to pay Central 1 a variable rate based upon the 3 month CDOR rates. At December 31, 2017, the Credit Union is paying a variable rate ranging from 1.414% to 1.456% (2016 – 0.898% to 0.934%). All payments are based on the notional amount of the underlying swaps. The swap contracts will mature from January 8, 2019 to July 6, 2022.

8. Trade and other receivables

	2017	*2016*
Commissions and premiums receivable	**557,020**	559,668
Prepaid expenses	**8,942**	11,556
Deferred broker fee expenses	**122,038**	100,257
Other accounts receivable	**5,000,122**	30,603
	5,688,122	702,084

9. Loans to members

	2017	*2016*
Residential mortgages	**86,214,451**	77,157,906
Personal loans	**16,785,653**	16,454,462
Commercial mortgages	**34,937,105**	32,592,873
Commercial loans	**4,027,973**	3,671,851
	141,965,182	129,877,092
Accrued interest	**289,723**	267,432
Allowance for impaired loans	**(390,049)**	(533,408)
	141,864,856	129,611,116

Terms and conditions

Member loans can have either a variable or fixed rate of interest and they mature within five years.

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 2.2% to prime plus 7.5%. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2017 was 3.2% (2016 – 2.7%).

The interest rate offered on fixed rate loans advanced at December 31, 2017 ranges from 1.0% to 13.0% (2016 – 1.0% to 14.0%). The rate offered to a member varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Personal loans consist of term loans and lines of credit that are non-real-estate secured and, as such, have various repayment terms. Some of the personal loans are secured by funds on deposit and personal property or investments, and some are unsecured.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

9. Loans to members *(Continued from previous page)*

Principal and allowance by loan type:

					2017
	Principal performing	**Principal impaired**	**Allowance specific**	**Allowance collective**	**Net carrying value**
Residential mortgages	86,214,451	-	-	-	**86,214,451**
Personal loans	16,631,611	154,042	96,015	92,155	**16,597,483**
Commercial mortgages	33,521,313	1,415,792	182,256	18,194	**34,736,655**
Commercial loans	4,027,973	-	-	1,429	**4,026,544**
Accrued interest	289,723	-	-	-	**289,723**
	140,685,071	1,569,834	278,271	111,778	**141,864,856**

					2016
	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Residential mortgages	77,157,906	-	-	-	77,157,906
Personal loans	16,251,230	203,232	146,670	62,914	16,244,878
Commercial mortgages	31,535,850	1,057,023	310,874	12,442	32,269,557
Commercial loans	3,671,851	-	-	508	3,671,343
Accrued interest	267,432	-	-	-	267,432
	128,884,269	1,260,255	457,544	75,864	129,611,116

The allowance for loan impairment changed as follows:

	2017	*2016*
Balance, beginning of year	**533,408**	428,849
Provision for impairment on loans to members	**115,488**	181,306
	648,896	610,155
Less: accounts written off, net of recoveries	**258,847**	76,747
Balance, end of year	**390,049**	533,408

9. Loans to members *(Continued from previous page)*

Loans past due but not impaired:

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year-end that are past due but not classified as impaired because they are either i) less than 90 days past due, or ii) fully secured and collection efforts are reasonably expected to result in repayment.

	1-30 days	**31-90 days**	**91 days and greater**	**2017**
Personal	2,187,049	23,393	-	**2,210,442**
Commercial	-	-	-	**-**

	1-30 days	31-90 days	91 days and greater	2016
Personal	-	-	-	-
Commercial	1,768,424	-	-	1,768,424

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.

Credit quality of loans:

It is not practical to value all collateral as at the reporting date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	2017	*2016*
Unsecured loans	**2,000,960**	2,101,356
Loans secured by member deposits or other	**4,620,866**	5,162,148
Loans secured by real estate	**135,343,356**	122,613,588
	141,965,182	129,877,092

10. Premises and equipment

	Land	*Buildings*	*Automotive*	*Equipment*	*Leaseholds*	*Total*
Cost						
Balance at January 1, 2016	979,880	2,316,796	11,113	1,117,872	**-**	**4,425,661**
Additions	-	341,616	-	113,721	**79,348**	**534,685**
Revaluation adjustment	150,120	(173,469)	-	-	**-**	**(23,349)**
Balance at December 31, 2016	1,130,000	2,484,943	11,113	1,231,593	**79,348**	**4,936,997**
Balance at January 1, 2017	1,130,000	2,484,943	11,113	1,231,593	**79,348**	**4,936,997**
Additions	1,037	20,572	-	118,198	7,840	**147,647**
Disposals	-	-	-	(135,439)	**-**	**(135,439)**
Revaluation adjustment	134,996	602,452	-	-	**-**	**737,448**
Balance at December 31, 2017	1,266,033	3,107,967	11,113	1,214,352	**87,188**	**5,686,653**
Depreciation						
Balance at January 1, 2016	-	-	11,113	881,760	**-**	**892,873**
Depreciation expense	-	54,488	-	64,786	**1,323**	**120,597**
Revaluation adjustment	-	(54,488)	-	-	**-**	**(54,488)**
Balance at December 31, 2016	-	-	11,113	946,546	**1,323**	**958,982**
Balance at January 1, 2017	-	-	11,113	946,546	**1,323**	**958,982**
Depreciation expense	-	55,741	-	106,430	17,568	**179,739**
Disposal	-	-	-	(134,936)	**-**	**(134,936)**
Revaluation adjustment	-	(55,741)	-	-	**-**	**(55,741)**
Balance at December 31, 2017	-	-	11,113	918,040	18,891	**948,044**
Net book value						
At December 31, 2016	1,130,000	2,484,943	-	285,047	78,025	3,978,015
At December 31, 2017	**1,266,033**	**3,107,967**	**-**	**296,312**	**68,297**	**4,738,609**

11. Intangible assets

	Banking system	*Website*	*Total*
Cost			
Balance at January 1, 2016	1,447,996	86,945	**1,534,941**
Additions	41,697	3,360	**45,057**
Balance at December 31, 2016	1,489,693	90,305	**1,579,998**
Balance at January 1, 2017	1,489,693	90,305	**1,579,998**
Additions	71,118	-	**71,118**
Balance at December 31, 2017	1,560,811	90,305	**1,651,116**
Depreciation			
Balance at January 1, 2016	102,251	42,959	**145,210**
Depreciation expense	150,453	18,564	**169,017**
Balance at December 31, 2016	252,704	61,523	**314,227**
Balance at January 1, 2017	252,704	61,523	**314,227**
Depreciation expense	157,429	5,364	**162,793**
Balance at December 31, 2017	410,133	66,887	**477,020**
Net book value			
At December 31, 2016	1,236,989	28,782	1,265,771
At December 31, 2017	**1,150,678**	**23,418**	**1,174,096**

12. Member deposits

	2017	*2016*
Demand and chequing	**69,643,722**	64,216,052
Term	**51,651,298**	51,671,660
Registered savings plans	**17,639,022**	18,322,900
Registered retirement income funds	**8,631,439**	7,768,598
Tax free savings account	**6,871,734**	6,220,683
Member shares *(Note 14)*	**1,828,747**	1,901,406
Accrued interest	**902,078**	910,091
	157,168,040	151,011,390

Total member deposits include $1,522,528 (2016 - $1,293,009) in foreign currencies denominated in Canadian dollars.

The Credit Union Deposit Insurance Corporation (CUDIC), a government corporation, guarantees all deposits and non-equity shares of BC credit unions as set out in the Financial Institutions Act. Membership equity shares are not covered by the deposit insurance.

12. Member deposits *(Continued from previous page)*

Terms and conditions

Chequing deposits are due on demand and are generally non-interest bearing. Certain chequing deposits bear interest at a variable rate up to 1.25% at December 31, 2017. (2016 - 1.25%)

Demand deposits bear interest at variable rates ranging from 0.125% to 1.25% as at December 31, 2017. (2016 - 0.125% to 1.25%) Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms up to five years. Interest can be paid monthly, annually or at maturity. Interest rates offered on regular term deposits issued on December 31, 2017 range from 0.25% to 4.0% (2016 – 0.25% to 3.65%)

Registered retirement savings plan (RRSP) accounts bear fixed or variable rates of interest for terms of up to five years. Fixed rate RRSPs have terms and rates similar to the term deposit accounts described above.

Registered retirement income funds (RRIFs) consist of fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semiannual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

13. Income tax

The significant components of income tax expense (recovery) included in profit for the year are composed of:

	2017	*2016*
Current income tax expense		
Based on current year taxable income	**102,632**	122,632
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	**86,000**	(19,000)
	188,632	103,632

Reasons for the difference between income tax expense for the year and the expected income taxes based on the statutory tax rate of 26% (2016 - 26%) are as follows:

	2017	*2016*
Net income before tax	**359,313**	551,198
Income tax expense on the statutory rate	**93,421**	143,311
Items not deductible for tax purposes	**497,619**	389,697
Items deductible for tax purposes	**(569,858)**	(472,286)
Small business deduction	**(14,556)**	(40,273)
Current year losses carried forward	**39,138**	2,328
Taxes on other comprehensive income (loss)	**53,400**	89,500
Other	**3,468**	10,355
Income tax expense	**102,632**	122,632

13. Income taxes *(Continued from previous page)*

The movement in 2017 deferred income tax assets and liabilities are:

	Jan 1, 2017	**Change for the year**	**Dec 31, 2017**
Deferred income tax assets:			
Cumulative eligible capital	4,900	-	**4,900**
Other	15,000	-	**15,000**
	19,900	-	**19,900**
Deferred income tax liabilities:			
Premises and equipment	(320,500)	(126,000)	**(446,500)**
Allowance for impaired loans	24,500	3,500	**28,000**
Taxable losses carried forward	74,000	28,000	**102,000**
Deferred income	1,000	8,500	**9,500**
	(221,000)	(86,000)	**(307,000)**
	(201,100)	(86,000)	**(287,100)**

The movement in 2016 deferred income tax assets and liabilities are:

	Jan 1, 2016	Change for the year	Dec 31, 2016
Deferred income tax assets:			
Cumulative eligible capital	4,900	-	4,900
Other	15,000	-	15,000
	19,900	-	19,900
Deferred income tax liabilities:			
Premises and equipment	(329,500)	9,000	(320,500)
Allowance for impaired loans	22,000	2,500	24,500
Taxable losses carried forward	74,000	-	74,000
Deferred income	(6,500)	7,500	1,000
	(240,000)	19,000	(221,000)
	(220,100)	19,000	(201,100)

14. Member shares

An unlimited number of Member shares are authorized for issuance.

	2017	*2016*
Balance, beginning of year	**1,901,406**	1,949,318
Issued during the year	**36,802**	25,624
Dividends credited during the year	**60,757**	57,202
Redeemed during the year	**(170,218)**	(130,738)
Balance, end of year *(Note 12)*	**1,828,747**	1,901,406

Member shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with *IAS 32, Financial Instrument Presentation* and *IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments*. All of the Credit Union's member shares are classified as financial liabilities and are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Terms and conditions

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold $25 in membership shares. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors. All issued shares are fully paid.

Funds invested by members in member shares are not insured by the Credit Union Deposit Insurance Corporation (CUDIC). The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 19), as is the payment of dividends on these shares.

15. Other liabilities

	2017	*2016*
Income taxes payable	**32**	-
Payables and accruals	**338,398**	454,145
Deferred income	**144,713**	108,333
	483,143	562,478

16. Other income

	2017	*2016*
General insurance commissions	**875,287**	933,868
Account service charges	**310,210**	334,229
Loan processing fees	**215,354**	272,592
Gain (loss) on disposal of financial investments	**(185,493)**	78,019
Gain on disposal of premises and equipment	**474**	-
Loss on revaluation of land and buildings	**76,492**	(226,900)
Other	**150,294**	248,683
	1,442,618	1,640,491

17. Operating expenses

	2017	2016
Advertising and member relations	**220,573**	189,153
Data processing	**229,722**	206,193
Depreciation	**342,532**	289,614
Dues and assessments	**248,520**	232,059
Insurance	**51,437**	53,109
Premises and office	**334,172**	303,153
Professional fees and dues	**256,102**	245,972
Salaries and benefits	**2,510,246**	2,467,567
Service charges	**180,647**	183,976
Training, meetings, travel	**128,608**	119,510
	4,502,559	4,290,306

18. Related party transactions

Key management compensation of the Credit Union

Key management personnel of the Credit Union and its subsidiaries are comprised of the Chief Executive Officer, Manager Financial Services, Manager IT & Support Services, Manager of LCU Insurance Agencies Ltd., and Members of the Board of Directors.

	2017	2016
Salaries and benefits	**574,647**	552,046

Transactions with key management personnel

Loans to key management personnel including their related parties must meet the same qualification requirements and general conditions which apply to Members and must be approved by the Board of Directors and reviewed by the Conduct Review Committee. Loans to key management personnel including their related parties may bear preferential rates of interest.

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.

	2017	2016
Loan balances outstanding	**1,396,940**	1,871,649
Lines of credit outstanding	**680,056**	647,640
Unused value of lines of credit	**539,244**	197,361
	2,616,240	2,716,650

	2017	2016
Interest and other revenue earned on loans and revolving credit facilities to KMP	**51,447**	61,200
Interest paid on deposits to KMP	**18,426**	36,287
The total value of member deposits from KMP as at the year-end:		
Term and savings deposits	**1,442,537**	1,689,221

18. Related party transactions *(Continued from previous page)*

	2017	*2016*
Directors fees and committee remuneration	**29,625**	25,675
Directors expenses	**13,741**	10,907
Honorarium	**12,500**	12,500

Director Compensation

The Board's compensation is designed to attract and retain experienced directors who are aligned with LDCU's values and can lead the long-term success of LDCU. This requires that directors be adequately and competitively compensated. The amount of compensation is reviewed every three years by comparing to the annual director's survey conducted by Central1. When considering the appropriate level of compensation, the committee considers:

- LDCU's values, mission, vision and culture;
- The level of responsibility and time commitment required of directors; and
- The need to attract and retain directors with the skills and attributes required to advance LDCU's business model and strategic plans, and to control its risks.

The current compensation period began on May 3, 2016. The next compensation review will be presented to members for approval at the 2019 Annual General Meeting to take effect following the 2019 Annual General Meeting. LDCU provides directors with the following compensation:

- Annual honorarium for the Board President - $2,000
- Annual honorarium for directors - $1,750
- Board President board meetings attended - $175 (includes AGM and Strategic Planning)
- Director board meetings attended - $150 each (includes AGM and Strategic Planning)
- Director committee meetings attended - $100 (includes audit, ILC, CRC, etc.)
- Director credit committee meetings attended - $50
- Reimbursement for expenses including training, travel, hotel, etc. while attending Credit Union meetings or courses

CEO Compensation

The CEO is employed via an employment contract that is reviewed each year. The CEO's base salary was determined by the Board in 2016 based on the Central1 wage survey, with a specific focus on Credit Unions of similar size. The Board has targeted the 50th percentile as the appropriate range for the CEO's salary.

The CEO's bonus is based on achieving overall financial targets of the Credit Union and its subsidiaries. The maximum bonus that can be achieved is 100% of the target bonus which is 20% of base salary. For 2016 the CEO achieved 61% of target, triggering a 0.61 times bonus payout approved by the Board. The actual payment for this amount was made in 2017 once 2016 results were finalized.

The CEO participates in a defined contribution plan identical to the program offered to all employees with the Credit Union contributing 12% of gross salary into a registered retirement savings plan. The contributions are vested immediately upon the CEO leaving the employ of the Credit Union.

Additional benefits and prerequisites with a total estimated value of 6% of base salary were provided. These include car allowance, life insurance, and updated vision coverage. The CEO also participates in the same health, dental, life and disability programs offered to all employees with the same terms.

18. Related party transactions *(Continued from previous page)*

The CEO of LDCU receives a compensation package that includes the following:

Base Salary	$ 170,000
Bonus (STI) paid for 2016 results	$ 20,600
RRSP Contribution	$ 24,972

Credit Union Compensation Policies and Practices

The CEO establishes the compensation of other members of the management team including the Managers of Financial Services, Member Services, IT & Support Services, Human Resources, and Insurance Services. Members of the management team have the same compensation structure as the CEO although cash compensation amounts are lower. Salaries are based on the Central1 wage survey, with a specific focus on Credit Unions of similar size. Salaries and bonus targets are set based on the 50th percentile for the market but individual salaries may be higher or lower depending on performance and tenure at the Credit Union. Bonuses are not structured, but recognition bonuses may be provided. The Credit Union contributes 12% to a defined contribution plan every year and provides extended health, dental, life insurance, AD&D and STD and LTD benefits.

Non-management employees are compensated based on a Collective Agreement in place with Union 378. Salary scales and benefits are paid as outlined in that Agreement.

19. Capital management

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The Credit Union considers its capital to include membership shares and retained earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of the Financial Institutions Act which establishes the applicable percentage for each class of assets.

As at December 31, 2017, the Credit Union met the capital requirements of its capital plan with a calculated members' capital ratio of 12.41% (2016 - 11.96%).

Regulatory capital consists of the following:

	2017	*2016*
Primary capital		
Membership shares	**1,828,812**	1,901,469
Retained earnings	**8,415,708**	8,245,026
Deferred income tax	**307,000**	221,000
	10,551,520	10,367,495
Secondary Capital		
Proportion of system retained earnings	**1,247,000**	1,155,000
Deductions from capital		
Goodwill and intangibles	**(1,174,096)**	(1,265,771)
Gains on own-use property	**(1,257,109)**	(1,257,109)
	(2,431,205)	(2,522,880)
Capital base	**9,367,315**	8,999,615

20. Fair value measurements

Recurring fair value measurements

The Credit Union' s assets and liabilities measured at fair value on a recurring basis have been categorized into the fair value hierarchy as follows:

	2017 (in thousands) Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	**1,137**	**1,137**	**-**	**-**
Available-for-sale financial assets				
Central 1 and CUPP shares	**640**	**-**	**640**	**-**
	1,777	**1,137**	**640**	**-**
Liabilities				
Interest rate swaps	**308**	**-**	**308**	**-**
Total recurring fair value measurements	**1,469**	**1,137**	**332**	**-**

	2016 (in thousands) Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	7,698	7,698	-	-
Available-for-sale financial assets				
Bond portfolio	4,872	-	4,872	-
Central 1 and CUPP shares	659	-	659	-
Interest rate swaps	298	-	298	-
	13,527	7,698	5,829	-
Total liabilities	-	-	-	-
Total recurring fair value measurements	13,527	7,698	5,829	-

Valuation techniques and inputs for level 2 fair value measurements is as follows:

Fair value measurement	**Fair Value**	**Valuation technique(s)**	**2017 Inputs**
Central 1 and CUPP shares	640	Fair value is determined to be equivalent to the par value of shares due to the fact transactions occur at par value on a regular and recurring basis.	Value of shares
Interest rate swaps	308	Fair value is determined using the net present value of cash flows attributable to the derivative financial liability.	Discount rates based on CDOR and swap rates.

20. Fair value measurements *(Continued from previous page)*

Fair value measurement	Fair Value	Valuation technique(s)	2016 Inputs
Bond portfolio	4,872	Fair value is determined using current market rates.	Quoted market price
Central 1 and CUPP shares	659	Fair value is determined to be equivalent to the par value of shares due to the fact transactions occur at par value on a regular and recurring basis.	Value of shares
Interest rate swaps	298	Fair value is determined using the net present value of cash flows attributable to the derivative financial asset.	Discount rates based on CDOR and swap rates.

Asset and liabilities for which fair value is only disclosed

The following table analyzes within the fair value hierarchy the Credit Union's assets and liabilities (by class) not measured at fair value at December 31, 2017 but for which fair value is disclosed:

	2017 (in thousands) Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Financial investments	**12,231**	**-**	**12,231**	**-**
Loans to members	**143,229**	**-**	**143,229**	**-**
Total assets	**155,460**	**-**	**155,460**	**-**
Liabilities				
Member deposits	**157,532**	**-**	**157,532**	**-**
Other liabilities	**338**	**-**	**338**	**-**
Total liabilities	**157,870**	**-**	**157,870**	**-**

20. Fair value measurements *(Continued from previous page)*

	2016 (in thousands) Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Financial investments	11,312	-	11,312	-
Loans to members	131,850	-	131,850	-
Total assets	143,162	-	143,162	-
Liabilities				
Member deposits	152,206	-	152,206	-
Other liabilities	454	-	454	-
Total liabilities	152,660	-	152,660	-

21. Financial instruments

The Credit Union as part of its operations carries a number of financial instruments. It is management's opinion that the Credit Union is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Risk management policy

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's Chief Executive Officer. The Board of Directors receives monthly reports from the Credit Union's Chief Executive Officer, through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors review and update the credit risk policy annually. The Credit Union's maximum credit risk exposure before taking into account any collateral held is the carrying amount of loans as disclosed on the statement of financial position.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographical region.

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union’s credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;

21. Financial instruments *(Continued from previous page)*

- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Internal audit procedures and processes.

With respect to credit risk, the Investment Lending Committee meets quarterly to review monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors receives an analysis of bad debts and allowance for doubtful loans annually.

A sizeable portfolio of the loan book is secured by residential property in Ladysmith, British Columbia. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Credit commitments

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

The Credit Union makes the following instruments available to its members:

(a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;

(b) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit), guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2017	*2016*
Unadvanced lines of credit	**12,960,600**	12,362,431
Guarantees and standby letters of credit	**449,652**	504,652
Commitments to extend credit	**2,024,498**	2,730,734
	15,434,750	15,597,817

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such liquidity for operating and regulatory purposes.

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific market conditions and the related behaviour of its members and counterparties.

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

21. Financial instruments *(Continued from previous page)*

Provisions of the Credit Union's Liquidity Plan require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 10%.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk. The Credit Union has limited exposure to other market risk because the majority of its investments are deposits held with Central 1.

Foreign currency risk

Foreign currency risk is the risk that movement in foreign exchange rates will have an adverse effect on the financial condition of the Credit Union. Foreign currency risk arises in the ordinary course of business as the Credit Union meets members demands for foreign currency banking transactions. The impact of foreign currency risk is influenced by the volatility of exchange rate changes, the mix of foreign currency assets and liabilities, and exposure the currency market. The Credit Union's business is predominantly conducted in Canadian currency with nominal deposits and funds held in US dollars. The Credit Union is not significantly exposed to currency risk.

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities. The Credit Union uses interest rate swaps to hedge a portion of its interest rate risk.

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to members as well as funds transfer pricing rates.

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members loans (assets) and interest paid on member deposits (liabilities). The objective of asset/liability management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Investment Lending Committee in accordance with the Credit Union's policy.

21. Financial instruments *(Continued from previous page)*

Contractual repricing and maturity

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within three months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

	(In thousands)				2017	2016
	Within one year	One to four years	Over four years	Non-Interest Sensitive	Total	Total
Assets						
Cash and cash equivalents	1,007	-	-	130	**1,137**	7,698
Average yield %	*1.40*	-	-	-	*0.84*	*0.84*
Financial investments	700	7,875	3,708	588	**12,871**	16,798
Average yield %	*2.15*	*1.46*	*1.71*	-	*1.51*	*1.51*
Loans to members	56,656	67,697	17,337	175	**141,865**	129,611
Average yield %	*4.27*	*3.87*	*3.47*	-	*3.95*	*3.95*
Trade and other receivables	-	-	-	5,454	**5,454**	490
	58,363	**75,572**	**21,045**	**6,347**	**161,327**	154,597
Liabilities						
Member deposits	78,876	38,801	5,367	34,124	**157,168**	151,011
Average yield %	*1.74*	*1.99*	*1.71*	-	*1.56*	*1.56*
Other liabilities	-	-	-	338	**338**	454
	78,876	**38,801**	**5,367**	**34,462**	**157,506**	151,465
Interest rate swaps:						
Assets	-	5,000	10,000	-	15,000	20,000
Liabilities	(15,000)	-	-	-	(15,000)	(20,000)
Net mismatch	**(35,513)**	**41,771**	**25,678**	**(28,115)**	**3,821**	3,132

Based on the current financial instruments, it is estimated that a 1.0% increase in the interest rate would increase (decrease) financial margin by $(232,000) or (4.4)% (2016 - $141,000 or 1.8%). A 1.0% decrease in the interest rate would increase (decrease) financial margin by $188,000 or 1.0% (2016 - $(152,000) or (5.4)%).

22. Credit facilities

The Credit Union has authorized lines of credit with Central 1 as follows:

Canadian funds	$ 1,300,000
US dollar funds	$ 50,000
Capital markets	$ 200,000
Demand loan facility	$ 1,000,000
Term loan credit facility	$ 2,000,000

At December 31, 2017, the Credit Union had not utilized any of the credit facilities.

23. Commitments

The Credit Union has committed to lease a premises which is subject to the following minimum rent payments per year:

2018	$ 24,000
2019	$ 24,000
2020	$ 24,000
2021	$ 22,000

24. Comparative figures

Certain prior year figures have been reclassified to conform to the current year's presentation.